

Message Text

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46

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DRAFTED BY EB/OT/TA:THGEWECKE:JW

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EUR/CAN:EMBROWN

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R 081505Z JAN 74

FM SECSTATE WASHDC

TO AMEMBASSY OTTAWA

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STADIS//////////

E.O. 11652:N/A

TAGS: ETRD, CA

SUBJECT: CANADIAN OFFSET REQUIREMENTS

FOR LEARY

1. DEPARTMENT WOULD APPRECIATE EMBASSY COMMENT ON FOLLOWING
TEXT OF PROPOSED NOTE TO CANADIANS ON OFFSETS. CALL OR
MARK REPLY FOR GEWECKE, EB/TA, X22735.

2. BEGIN TEXT. THE CANADIAN MINISTER OF TRANSPORT IN A
RECENT SPEECH DECLARED THAT AIR CANADA, THE MINISTRY OF
TRANSPORT AND THE DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE
HAVE RAISED WITH POTENTIAL SUPPLIERS THE QUESTION OF THE
TYPE AND PROPORTION OF OFFSET PRODUCTION CANADA MIGHT
EXPECT FOR ITS AEROSPACE INDUSTRY AS A RESULT OF POSSIBLE
PURCHASES. THE SPEECHES OF MINISTERS GOYER AND MARCHAND
BEFORE THE AIR INDUSTRIES ASSOCIATION OF CANADA LEAVE
LITTLE DOUBT THAT CANADA REGARDS OFFSET REQUIREMENTS AS A
KEY ELEMENT IN MANY AREAS INVOLVING GOVERNMENT PROCUREMENT,
AND IS SEEKING TO INTENSIFY OFFSET EFFORTS IN THE AEROSPACE
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SECTOR, IN PARTICULAR.

3. THE UNITED STATES IS CONCERNED THAT THE EXPORT SALES TO CANADA BY A KEY UNITED STATES INDUSTRY SHOULD BE MADE CONTINGENT ON "OFFSET" CONSIDERATIONS, SUCH AS SUBCONTRACTING FOR PARTS PROCUREMENT IN CANADA AND/OR THE ESTABLISH-

MENT IN CANADA OF FACILITIES FOR RESEARCH OR THE PRODUCTION OF EQUIPMENT WITH HIGH TECHNOLOGICAL CONTENT. THE UNITED STATES BELIEVES THAT INDUSTRY SHOULD BE FREE TO SUBCONTRACT OR TO INVEST IN PRODUCTION FACILITIES ON THE BASIS OF ECONOMIC EFFICIENCY AND SHOULD NOT HAVE TO MAKE THESE DECISIONS ON OTHER GROUNDS AS A CONDITION FOR OBTAINING SALES. OFFSET ARRANGEMENTS, WHICH FORCE AN OTHERWISE UNECONOMIC TRANSFER OF PRODUCTION FROM THE UNITED STATES TO CANADA, ARE PARTICULARLY LIKELY TO HAVE AN ADVERSE AFFECT ON THE UNITED STATES AEROSPACE INDUSTRY AT A TIME WHEN IT IS SUFFERING FROM UNDERUTILIZED CAPACITY AND UNEMPLOYMENT. THE UNITED STATES IS DISTURBED THAT AMERICAN SUBCONTRACTORS MUST FACE THE BARRIER OF CANADIAN OFFSET REQUIREMENTS IN SELLING TO OTHER AMERICAN FIRMS FOR EXPORT ORDERS TO CANADA AND THAT AMERICAN FIRMS MUST COMPETE WITH EACH OTHER AND WITH FOREIGN FIRMS FOR CANADIAN ORDERS ON GROUNDS OTHER THAN THOSE RELATED DIRECTLY AND OBJECTIVELY TO THE SALE.

4. IT IS ALSO QUESTIONABLE WHETHER THE UNITED STATES SHOULD CONTINUE TO USE EXPORT-IMPORT BANK RESOURCES TO SUPPORT SALES IN WHICH THE GOALS OF THE BANK ARE IN LARGE MEASURE NEGATED BY OFFSET REQUIREMENTS.

5. THE GENERAL QUESTION OF OFFSET REQUIREMENTS AS A CONDITION FOR GOVERNMENT APPROVAL OF A BUSINESS ACTIVITY OR TRANSACTION WHICH REQUIRES THE TACIT OR EXPLICIT APPROVAL OF THAT GOVERNMENT IS OF INCREASING CONCERN TO THE UNITED STATES GOVERNMENT. THE UNITED STATES BELIEVES THAT SUCH POLICIES, PARTICULARLY WHEN APPLIED TO PURCHASES OF COMMODITIES FOR COMMERCIAL USE, ARE FRAUGHT WITH POTENTIAL FOR UNFAIR DISCRIMINATION AGAINST FOREIGN SUPPLIERS AND BETWEEN THEM, AND THAT AN INTENSIFICATION AND PROLIFERATION OF SUCH PRACTICES WILL UNDERMINE ONGOING LIMITED OFFICIAL USE

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ATTEMPTS TO CREATE A MORE OPEN TRADING SYSTEM.

6. THE UNITED STATES BELIEVES THAT THESE PROBLEMS SHOULD BE DISCUSSED IN DETAIL BY REPRESENTATIVES OF OUR TWO GOVERNMENTS. ACCORDINGLY, THE GOVERNMENT OF THE UNITED STATES REQUESTS CONSULTATIONS WITH THE GOVERNMENT OF CANADA FOR THE PURPOSE OF CLARIFYING THE POLICY OF THE GOVERNMENT OF CANADA WITH REGARD TO OFFSET REQUIREMENT* AND

O EXPLORE POSSIBLE WAYS OF ALLEVIATING THE UNDESIRABLE
EFFECTS WHICH SUCH A POLICY MAY BE HAVING ON AMERICAN
EXPORTERS. END TEXT.

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